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# POLITICAL SCIENCE QUARTERLY

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## THE REPORT OF THE CLAY COMMITTEE ON FOREIGN AID: A SYMPOSIUM

ON April 2, 1963, President John F. Kennedy submitted a message to Congress requesting an appropriation of \$4,525,000,000 in new foreign aid funds and suggesting enactment of tax incentives to encourage the flow of private investment capital into the developing nations. In the course of his message, President Kennedy sketched the history of foreign aid since the Marshall Plan and put the nation's current effort in the context of immediate political needs and economic capacities:

The United States today is spending over ten per cent of its gross national product on programs primarily aimed at improving our national security. Somewhat less than one twentieth of this amount, and less than 0.7 per cent of our GNP, goes into the mutual assistance program: Roughly half for economic development, and half for military and other short-term assistance. The contribution of this program to our national interest clearly outweighs its cost. The richest nation in the world would surely be justified in spending less than 1 per cent of its national income on assistance to its less fortunate sister nations solely as a matter of international responsibility; but inasmuch as these programs are not merely the right thing to do, but clearly in our national self-interest, all criticisms should be placed in that perspective. That our aid programs can be improved is not a matter of debate. But that our aid programs serve both our national traditions and our national interests is beyond all reasonable doubt.

"That our aid programs can be improved . . . that our aid

programs serve both our national traditions and our national interests"—these phrases from President Kennedy's message may be taken as descriptive of the major conclusions of one of the most significant evaluations of government policy to have been undertaken in recent years, the Report of the Committee to Strengthen the Security of the Free World (the Clay Committee report).<sup>1</sup>

On March 20, 1963, three months after it had been appointed by the president, the Committee, under the chairmanship of General Lucius D. Clay, issued a report (George Meany dissenting) <sup>2</sup> evaluating the effectiveness of present foreign aid programs, suggesting criteria by which adequate performance might be measured, and, in some cases, proposing new goals for national policy. With the basic purposes of the current program the Committee was not in disagreement:

There should be no doubt . . . of the great value of properly conceived and administered foreign aid programs to the national interest of the United States and of the contribution of the foreign assistance dollar in such programs to the service of our nation's security. . . . A foreign aid program is one instrument among many which we and other developed countries adequately can afford and vigorously must use in the defense and advancement of free world interests.

In the opinion of the Committee, however, there were sufficient reasons for concern with both the objectives of the current program and with its administration.

First, though it is clear that economic and social development can be achieved only when they are based on an *internal* expression of will and discipline, many countries receiving aid have not adequately utilized their own resources. Nor, indeed, has the United States insisted upon a higher

<sup>1</sup> "The Scope and Distribution of United States Military and Economic Assistance Programs." Report to the President of the United States from The Committee to Strengthen the Security of the Free World, March 20, 1963 (Department of State, Washington, D. C.). The members of the Committee are: General Lucius D. Clay, Chairman, Robert B. Anderson, Eugene R. Black, Cliford Hardin, Robert A. Lovett, Edward S. Mason, L. F. McCollum, George Meany, Herman Phleger, Howard A. Rusk, M.D.

<sup>2</sup> Since Mr. Meany is participating in the symposium that follows, no attempt will be made here to discuss his dissent.

level of performance as the price of granting aid. Under such circumstances, the majority of the Committee felt, foreign aid becomes, in effect, a program of continuous subsidy.

Second, the capacity of many of the less developed countries to absorb foreign aid is limited by scarcity of trained manpower and adequate local institutions. The rapidity of population growth, moreover, tends to wipe out short-term gains and accentuates social unrest.

Third, there is increasing evidence that the American people feel that other industrial nations, having recovered their prosperity, should assume a larger share of the foreign aid burden than they are now carrying.

Fourth, the foreign aid program has been a major element in the persistent deficit in international balance of payments that has plagued the United States for twelve of the last thirteen years.

Fifth, there have been weaknesses in the effective coordination of overlapping agencies in the foreign aid field.

It was the conclusion of the Committee that "we are indeed attempting too much for too many and that a higher quality and reduced quantity of our diffuse aid effort in certain countries could accomplish more." The receipt of "optimum value" from our assistance programs depends, however, upon the existence of national goals that are clearly defined and national expectations that may reasonably be held. For that reason, the Clay Committee placed its specific programmatic recommendations—for aid to countries on the borders of Soviet Russia and China, to Africa, to Latin America, and the like—within a broad context of considerations of general policy. The attitude of the Committee with respect to aid to nations that do not always agree with U. S. policy provides a case in point: ". . . aid to countries which are avowedly neutral and sometimes critical of us may be in order, so long as their independence is genuine, their overall behavior responsible, and their use of their own resources prudent and purposeful."

Perhaps somewhat more controversial were the recommendations laid down by the Committee to govern policy toward countries with economic systems different from our own.

Our aid should help create economic units which utilize not only limited government resources wisely but mobilize the great potential and range of private, individual efforts required for economic vitality and rapid growth. . . . We believe the U.S. should not aid a foreign government in projects establishing government-owned industrial and commercial enterprises which compete with existing private endeavors.

The Committee acknowledged that it would be inappropriate, in aiding foreign countries, "to insist upon the establishment of our own economic system," but it concluded that

we should not extend aid which is inconsistent with our beliefs, democratic traditions, and knowledge of economic organization and consequences. . . . Countries which would take this route [that is, the route of politically-operated, heavily subsidized state enterprises] should realize that while the U.S. will not intervene in their affairs to impose its own economic system, they too lack the right to intervene in our national pocketbook for aid to enterprises which only increase their costs of government and the foreign assistance burden they are asking us to carry.

Finally, in its attempt to establish the guidelines that should govern specific decisions, the committee insisted that—once the decision had been made, on grounds of "enlightened self-interest," to aid a country—the kind and amount of aid should be based upon strictly economic criteria. The "vagaries of ephemeral world opinion" had at times in the past influenced the United States to embark upon programs in which the national treasure was expended without proportional gains in increased national security. The firmness of U.S. negotiating positions had been weakened, efforts to make aid more effective by obtaining much-needed local reforms had been undermined, and both congressional and public support for foreign aid had been sapped by the all-too-frequent readiness of the American government to give aid that could not be justified by economic criteria but was undertaken only for the purpose of purchasing temporary political surcease.

Guided by these general considerations of policy, the Committee made the following recommendations:

### (1) *The Border Areas*

Countries on the borders of the Soviet Union and China should continue to receive military and economic aid, but the amount and kinds of such aid should be subject to continuing review. In some countries, military forces are larger than required for the immediate mission of defense; there, substantial reductions of both kinds of aid could easily be made. In other countries, especially in southeastern and western Asia, military assistance is not essential to free world security and should be ended. India, Pakistan, and Indonesia, however, require special consideration. The first two countries comprise the "only area of South Asia able to offset the Red Chinese colossus. Unless their freedom and economic growth continue, there can never be a balance of power in Asia. . . ." It is essential, therefore, that both forms of aid be continued, but it would be difficult to justify doing so at present rates unless "other free world countries continue and extend their support on terms comparable to our own." Assistance should not be granted to Indonesia, however, unless that country "puts its internal house in order, provides fair treatment to foreign creditors and enterprises, and refrains from international adventures." Aid to Greece and Turkey should be continued, though at a declining rate as other NATO members increase the scope of their aid.

### (2) *Africa*

Primary responsibility for economic assistance to the new nations of Africa rests upon the former colonial powers. ". . . the United States cannot undertake to support all of the African countries especially when their ties with other free world nations are largely elsewhere."

### (3) *Latin America*

Adequate and timely economic aid is essential to achieve stability in Latin America, but at best such aid can be no more than a catalytic agent "to supplement the attitudes and actions of indigenous governments and societies." Assistance under the Alliance for Progress should be granted only upon

reasonable progress by the Latin American governments themselves toward the attainment of explicitly stated political and economic reforms. If these development goals are to be achieved, the offering of incentives to the private sector must be encouraged:

Impediments to the growth of private enterprise must be identified and treated, the shallowness and harm of doctrinaire biases against responsible private enterprise exposed, new sources of credit opened to medium and small Latin American businessmen, and foreign investment encouraged in the confidence that all governments now have means to protect themselves against potential abuses.

#### (4) *Sharing the Assistance Effort*

The revived nations of western Europe, Canada, and Japan must take up an increasing share of the burden of economic assistance, but it is unrealistic to assume that they will do so as long as the United States "is apparently willing to bear more than" its fair share. The United States must, therefore, make known its views on these matters to the other aid-giving countries.

The remaining recommendations of the Committee dealt for the most part with technical assistance, specific programs now in existence (like the Food for Peace Program), military base rights, and problems of administration.

As a contribution to continued public discussion of this important state paper, the *Political Science Quarterly* has asked five distinguished citizens, all of whom have had considerable experience in problems associated with foreign aid programs, to present their views of the Clay Committee report.

JACOB VINER

*Emeritus Professor of Economics, Princeton University*

In this, its first report, the Committee concentrates on the contribution our foreign aid program can make to the security of the free world, but gives attention also to its possible service to other weighty national objectives. Foreign aid on a systematic and continuing basis is a relatively new element in international relations. Its unilateral nature and

its transcendence of the discipline enforced by the bargaining or commutative element in foreign trade and international finance deprives it of any self-generated limitation of its scope or fashioning of its design. There is no well established and coherent doctrine to provide clear guidance for decisions as to its scale, range, and pattern. The body of past experience is not yet rich enough, nor widely enough available for study, to provide of itself a substantial basis for decision-making. The possible range of objectives which foreign aid can and should be made to serve, the extent to which these objectives are harmonious with each other, their relative weight, all of these are inherently matters for judgment and debate. Whatever funds are provided for foreign aid must be withdrawn from other uses, some of them with presumably comparable or superior claims to support. No neat formulas are available or attainable which simplify the task of reaching decisions, although some spurious ones have been proposed. The administration, the Congress, and the public urgently need the guidance of wise and experienced men, whose dedication to the public good is unquestionable, and who have pondered, explored, discussed, and reached a consensus on the objectives to be served, the relative weight to be given them, the desirable scale and distribution of the aid to be given, and the principles and procedures to be followed in the administration and execution of the program, once it has been adopted. The Committee has been assigned this difficult task, and its first report makes a valuable contribution, excellent in form and spirit, persuasive in content. A large number of important recommendations of varying degrees of concreteness are made in the report, generally supported by informed and judicious argument. Ultimate decisions will be made elsewhere, but they will be better decisions if in reaching them the administration and the Congress give to the recommendations of the Committee the consideration they eminently deserve.

The Committee accepts as essentially non-controversial that foreign aid on a substantial scale, to many countries, and in many forms, is presently necessary to our national interest, and especially to the security of our country and of the free world in general, and will continue to be necessary for some time into the future. It finds, however, that our aid pro-

gram has been allowed to grow to overly large dimensions, has been distributed over too wide a range of countries, and has been given with too few strings attached, from the point of view both of our deriving the maximum attainable amount of benefit for ourselves and of doing what we can to assure that the aid we give imparts the maximum amount of benefit to the recipient countries. It is dissatisfied with some of the grounds on which aid has been granted by us in the past, and with the manner in which some recipient countries have used the aid they received. It has found evidence of some degree of loose administration of aid in the past, and urges a general tightening in the selection of recipient countries, in the requirements for repayment, and in the commitments to be asked of the recipient countries as to the pattern of use of the aid they receive. It presents no precise formulas—and wisely, I think—according to which the objectives of our aid program should be pursued, but confines itself in the main to general counsel with respect to goals and to administrative procedures. It makes the recommendation, repeated several times, that we should press other advanced countries to accept responsibility for a larger share of the task of aiding the poorer countries. It warns against our committing ourselves indefinitely to foreign aid as a routine element in our foreign economic policy, while recognizing that there are unquestionably valid and adequate grounds for engaging in it under existing circumstances.

This is all in its general lines very persuasive to me, both in the light of my own judgment, such as it is, in these matters and on the basis of my confidence in the wisdom, the experience, and the information possessed by the Committee with reference to matters on which I have no claims to competence. I especially like the stress the Committee placed on the need for recognition of the fact that we have no economic resources for which there are no alternative uses of comparable urgency, and that what we allocate to foreign aid must directly or indirectly be diverted from other worthy causes, public or private.

The Clay report will nevertheless undoubtedly be met with criticism and dissent from various quarters and on various grounds. Enthusiasts for foreign aid who value it primarily on humanitarian or ethical grounds as a potentially

mighty instrument for the exercise of universal benevolence will not be pleased by the stress of the Committee on the finite character of our economic resources, on the multitude of claims on these resources which call for consideration when we are deciding how much foreign aid we can reasonably afford to give, and on the desirability of pressing recipient countries to assume and faithfully to endeavor to fulfill obligations to the general objectives of the program as a condition of eligibility for aid. These enthusiasts tend to look through rose-colored spectacles at the past record of achievement through foreign aid, to ignore, or deny, or minimize the existence of worthy rival claims to the resources which they wish to have allotted to foreign aid, and to argue that not only in special cases but in a wide range of circumstances the United States will derive more economic benefit for itself by aid to other countries even on an outright grant basis than by the current public or private, investment or consumption, use of the resources at home which foreign aid precludes.

There is really no limit to the philanthropic zeal of some warm-hearted individuals. Some of them, no doubt, now that outer space is so much in our thoughts, find even a global scale for our philanthropic endeavors too confining, and will be eager, as soon as it should become physically possible, to apply to the foreign aid field the doctrine already expounded, in all sincerity, by an American philosopher that

the only ethics that makes sense on a metaphysical level is a universal ethics, for which the good of individuals has validity only because it contributes to a good beyond all terrestrial individuals and nations . . . we need to connect ultimate philosophical ideas with ideas from astronomy, such as the notion of 'planets by the billion.' . . .

Nor would it be prudent to ignore the enthusiasts of foreign aid, for without their ardent support in the past it seems doubtful to me that our foreign aid program would have been politically viable on anything like its past or present proportions. From them, and from others also, whose belief in the virtues of foreign aid in the present state of the world, though more moderate, and resting more on prudential considerations, is nevertheless strong, there will be expressions

of disappointment that the Committee came close to proposing a reduction in the present scale of foreign aid and that, by its criticisms of the planning and administration of the program in the past and of the poor performance of some receiving countries, it provided ammunition to those who were hostile to the program as a whole or would at least welcome its being radically reduced in scale. It seems probable to me, however, that the Committee's report will aid rather than hinder the administration in obtaining approval of its proposals from Congress, provided that the administration convinces Congress that it has given the most serious and conscientious consideration to the Committee's recommendations, and that its program has been revised and tightened accordingly.

The path of foreign aid appropriations this year is beset with special obstacles. We are already running a sizable budgetary deficit and are planning an even larger one via increased expenditures and reduced tax rates. Our international balance of payments has for several years running been in bad shape, and nothing that is clearly visible today, either in the behavior of our national economy or in any remedial program of action on the part of the administration, makes it seem less likely that it will deteriorate further than that it will come closer to equilibrium in the next year or two. It is unfortunate also that foreign aid is itself a significant contributing factor to our international imbalance, and that while there are many ways in which that imbalance can be lessened or eliminated without recourse to reduction of foreign aid, there seem to be few steps in that direction which would be painless for us to take or which would not involve for other countries, including the candidates for aid, unfavorable and unpleasant economic impacts. I would suggest, moreover, that the Committee accepted too unqualifiedly the argument of the administration that the unfavorable impact of the foreign aid program on our balance of payments is limited to the annual amount by which the total in dollars of such aid exceeds the expenditures on foreign aid account on American goods and services. Their argument is valid in direction but not in degree. Some portion of the American goods and services which enter into our aid program would in the absence of that program be directly or indi-

rectly diverted to exports on commercial account or serve as substitutes for imports into this country. It is arguable also that the domestic taxes which wholly or largely finance our foreign aid program operate to lessen the competitive ability of our export industries and our import-competing industries.

On the other hand, I would not go along with the Committee's proposition that the health of our national economy is dependent upon the maintenance of international dollar convertibility "at the existing gold parity," unless there were added, as a minimum, "or at a gold parity internationally agreed upon." Exchange depreciation is not for a country like the United States a simple matter of unilateral action (or failure to act), and an attempt to bring it about, if resisted by other countries, could lead to major damage, economic and political, for us and for them. An internationally agreed upon change in the currency prices of gold, on the other hand, would be less disturbing both economically and politically. Although I see very little potential benefit in it, either for our economy as a whole or for the state of our balance of payments, as of this year, the time may come before long when it, or something close to it, will be necessary if the international financial mechanisms are to continue to operate smoothly.

The Committee states its belief that to achieve to the maximum the goals of the foreign aid program, including maximum contribution to the economic vitality and growth of the recipient countries, the aid should be so planned and allocated as to provide additional incentives to private enterprise in the countries aided rather than to help finance encroachments by governments on private enterprise. I approve of this recommendation, and I think there was need for it. But delicate issues are involved here, and they are not all simple issues of the relative economic merits of public and private enterprise. Government entrance into an industry in which private concerns are already operating presumably constitutes government competition "with existing private endeavors." There may, however, be cases where domestic private enterprise cannot finance expansion to the degree regarded as needed, and where foreign private enterprise cannot find attractive enough profit prospects to engage

in the needed expansion or would not be tolerated by public opinion, so that the only practicable alternatives are government enterprise or nothing. There may be cases where private enterprise has no claims to superiority in efficiency over government enterprise. We may justifiably prefer private to government enterprise when there is a real option and so conduct our foreign aid program as to reflect that preference. But as formal policy, in the interest of our own foreign goals, I think that the furthest we can safely go is to ask that choice between government enterprise and private enterprise in matters where foreign aid is substantially involved shall not be made in flagrant conflict with the apparent economic merits of the two in the relevant instances. We should also explore to the utmost the possibilities of using our own initiative to strengthen private enterprise in such countries by offering our cooperation, as part of our aid program, in discovering what are the obstacles, financial or technical, to the expansion in needed directions of private industry, and in helping to provide the requisite remedies. Here the establishment of contacts with business organizations in such countries, contacts in which the governments on both sides, our businessmen, and their businessmen, all participate, might prove an effective procedure where governments were not definitely hostile to private business.

The Committee recommends "the gradual shifting to effective international administration, free of the complications arising from membership of the Soviet Bloc, of as large a share of the responsibility for developmental investment as the cooperation of other free world aid-giving nations makes possible." The implication here is that the arrangements and institutions shall be such that the administration will be in the hands predominantly of donor countries. The reasons given by the Committee in support of this recommendation seem cogent to me. I would add two further advantages of multilateral procedures as compared to bilateral arrangements: the necessary personnel could be recruited from a wider area, and probably at lower cost per expert of equal qualifications; restrictions of the "Buy American" type would be eliminated. Perhaps these two points are really only one.

Mr. George Meany's dissent from the report argues strongly for enlarging, instead of reducing, the scale of our foreign

aid, but omits discussion of the budgetary, and balance of payments, implications of so doing. The questions in issue do not have "correct" answers, but must be decided by the play of different men's judgment, information, and values. I am drawn by the general trend of the recommendations of the remainder of the Committee, but I respect the weight of Mr. Meany's dissent, and hope it will serve the useful purpose of weakening the opposition of those hostile to almost any aid at all to the Committee's recommendation of the continuance of a substantial program of aid. Mr. Meany objects that "The report gives no documented basis for proposed reductions," but neither does he give a documented basis for an increase in the program or even for its maintenance at its present level, and in both cases this would have been in the circumstances too much to ask for, and of doubtful value if accomplished. The presentation of a general consensus of judgment, and of warning signals with respect to particular practices and shortcomings in the program as it has evolved, and the formulation of some guiding principles: these were the services which in the circumstances it could be hoped that the Committee would render, and, in my judgment, its report meets these requirements admirably.

Mr. Meany asks that organized labor in the United States and in the underdeveloped countries be permitted and encouraged to participate in the planning and execution of foreign aid programs. Without entering into a discussion of the legitimate modes of such participation, I agree heartily in principle, but I would extend the facilities for, and encouragement to, participation to business organizations here and in the underdeveloped countries also. Support of the programs by one or both of these groups is in many countries essential to a successful outcome, and in any case is desirable as a matter of democratic process.

FOWLER HAMILTON  
*Formerly Administrator,  
Agency for International Development*

On December 10, 1962, President Kennedy appointed a Committee to Strengthen the Security of the Free World.

The purpose of the Committee is to advise the President, the Secretary of State, the Secretary of Defense, and the Administrator of the Agency for International Development on U.S. government foreign operations programs in the economic and military fields. This Committee (popularly known as the Clay Committee after its eminent chairman, General Lucius Clay) has nine members. The first task given by the President to the Committee was: "To examine U.S. military and economic assistance programs to determine whether their scope and distribution was contributing to the optimum security of the United States and the economic and political stability in the free world" (p. 1 of the Committee's report).

After three months of study and investigation, including extensive hearings with officials of the Agency for International Development (AID), the Committee issued a report in which the members gave their "general views on how the foreign assistance program should be conducted." One member of the Committee, Mr. George Meany, entered a vigorous dissent.

Both the size and complexity of the programs that the Committee had under review and the undesirability of singling out specific countries for critical comment properly required the Committee to state its views in general terms.<sup>1</sup>

It may aid in understanding the Committee's report and also in comprehending the scope and difficulty of the tasks that face the Committee if we recall the main facts concerning two basic points: (1) why the U.S. has had foreign aid programs, and (2) what those programs have been.

## I

At the end of World War II, as at the end of World War I, the American people were seized with a profound and perfectly natural desire to return as quickly as possible to a normal way of life. In the field of foreign affairs, this meant a return to that isolationism and neutralism that had characterized our foreign policy since George Washington's warning against "entangling alliances." This national mood

<sup>1</sup> The report (p. 1) notes that the views of the Committee "concerning specific countries have been discussed at length with the Administrator of the Agency for International Development."

was reflected in two important actions. On August 1, 1945, even before the end of hostilities with Japan, President Truman somewhat abruptly ended Lend-Lease, the first great modern U.S. foreign aid program. Between August 14, 1945, the end of hostilities with Japan, and June 25, 1946, nine million men and women were demobilized from the United States armed services. Both actions met with widespread and enthusiastic public approval.

Despite the apparent decisiveness of these actions, this return to isolationism was thoroughly reversed in less than two years when two new foreign aid programs were started. These have brought total postwar foreign aid programs to almost \$100 billion, or twice total Lend-Lease expenditures of \$48.5 billion. The first of the two programs was launched in March 1947 with the promulgation of the Truman Doctrine under which the United States offered aid to nations that wished to maintain their independence against the threat of communist aggression or subversion. The second was initiated less than ninety days thereafter. On June 5, 1947, Secretary of State Marshall proposed that the United States should extend aid to any European country, not excluding communist countries, willing to cooperate with the United States in measures designed to avoid the kind of economic and political chaos that then threatened the nations of western Europe.

These two measures, the Truman Doctrine and the Marshall Plan, sounded the two *motifs* that for long characterized all U.S. aid programs—security against communism and security against chaos.

Latterly, U.S. foreign aid programs have moved into a development phase to strengthen an international society of independent states.

To speak very generally, two sets of circumstances caused this sharp and seemingly permanent reversal of traditional American foreign policy. One was the growing plight of the postwar world outside the United States; the other was the drastically changed position of the United States in the new world of the postwar era.

Although there were three victors in World War II, the United States, Britain, and the U.S.S.R., the latter two were almost as damaged and war-weary as the vanquished. Only

the United States was markedly stronger at the end of the struggle than at its beginning. The futures of regions beyond the boundaries of these three were, with rare exceptions, precarious and uncertain.

In mainland China, the world's most populous society was foundering towards communism on a sea of chaos. In the great Indian sub-continent, the world's second most populous society faced the imminent withdrawal of British power as well as the certain prospect of uncertain amounts of violence and disorder. In Southeast Asia, societies recently freed from the dominion of Japanese power and charged with anti-colonialist fervor were falling progressively prey to the contagion of violence and disorder that was spreading from the Chinese mainland throughout the Southeast Asian peninsula to the Netherlands East Indies (as they then were) and to the Philippines. In the eastern Mediterranean area, uncertainty was compounded when, in February 1947, the British Government announced that it could no longer be responsible for security in that unstable era, where Western power was so weak that communist guerrillas controlled the mainland of Greece save a fragment of Athens. Europe, in the autumn of 1947, faced a bleak winter of social distress and possible political upheaval. As a consequence of the unprecedentedly severe winter of 1946 and of the disastrous drought in the summer of 1947, food and fuel were in critically short supply. To avert possible catastrophe, President Truman called a special session of the U.S. Congress in the fall of 1947 to appropriate over \$500 million of emergency food and fuel relief to meet emergency needs in advance of Marshall Plan operations.

The second set of circumstances that gave rise to our foreign aid programs lay in the new international position of the United States. At the end of World War II, the United States was not only the leading power in the world, it possessed almost a monopoly of international power. As the exclusive possessor of atomic weapons and of a long-range system for their delivery, it had a near monopoly of the power for violence. It also had a near monopoly of foreign economic power, for it was the only country of consequence that had surplus wealth, that is, resources not needed for the subsistence of its citizens. For the first time

in its history, it had an enemy, the U.S.S.R., intent upon undermining U.S. security. Also, for the first time in its history the United States became vulnerable to invasion from across the oceans that had so long been its natural bastions. Moreover, through the progressive dissolution of the old imperial systems that was to bring political freedom to almost one billion people in Africa and Asia, the United States found itself facing the most sweeping and sudden political changes that had occurred in the western world since the Reformation. Finally, great as was the military power of the United States, it was subject to three serious restrictions: (1) the immense destructiveness of atomic power largely limits its use to negative purposes, namely, to preclude the use of violence by others; (2) conventional military power is limited by two factors: one is the risk that its use might escalate into the use of atomic power, the other is the relative weakness of conventional military power as a means of extinguishing communist guerrilla warfare and insurgency in territories where the local populations and governments are unwilling to work and fight for freedom; and (3) there are serious limitations upon the use by the United States of conventional military power to protect countries from communist subversion or aggression.

The main responsibility for world leadership in the immediate postwar period and for leadership of the non-communist world ever since has been thrust upon the United States. The circumstances described above have compelled the United States to rely mainly upon persuasion in discharging the responsibilities imposed by that leadership. Foreign aid has been the principal U.S. argument in this immense exercise in persuasion.

## II

If foreign aid be defined, as it generally is, to be all government-supported grants or loans of money or commodities to foreign countries or persons, then the United States foreign aid programs since the end of World War II have aggregated, in terms of appropriations, approximately \$98 billion. Certain comparisons are relevant. Thus for the same period this total foreign aid equaled approximately one and a half per cent of the country's gross national product

of \$6,500 billion; it equaled approximately eight per cent of total federal government appropriations of \$1,200 billion; and it equaled approximately sixteen per cent of total national defense appropriations of \$620 billion.

Considerable light is shed upon both the purposes and effectiveness of these programs by an examination of the regions in which their resources have been expended:

- (1) \$45 billion have been expended in Europe.
- (2) \$40 billion have been spent either in countries that lie directly against the Iron or Bamboo Curtains (\$32 billion), or in countries that are adjacent to the latter (\$8 billion).
- (3) \$6.8 billion have moved to Latin America, but the preponderant part of these have been Export-Import Bank loans of a quasi-commercial character.
- (4) \$1.8 billion have been spent in Africa.
- (5) \$4.4 billion have been made available to international organizations.

### III

The Committee's report is primarily concerned with current programs.

From one perspective it may be seen that the United States now has five interrelated foreign programs: (1) an immediate security program that is primarily military but also, on occasions, political; (2) the Alliance for Progress; (3) a program of technical assistance that stems historically from Point IV and that aims at helping people develop primarily through education and training broadly conceived; (4) a program that stems historically from the Development Loan Fund and that aims to help economic development by contributing to relieve those balance of payment deficits of less developed countries that result from imports needed for industrial growth; and (5) a Food for Peace Program that supports the other four programs and achieves additional humanitarian goals.

In addition to these five programs of its own, the United States makes contributions to the foreign aid programs of various international organizations.

The immense scope of present programs and their backgrounds and the desirability of achieving maximum useful-

ness before congressional decision upon the administration's current request for funds made it natural for the Committee to focus its attention upon appropriations under the Foreign Assistance Act and upon the Agency for International Development which administers the greater part of those funds. Accordingly, the Committee, as the report points out (p. 1), did not include within its consideration the lending activity of the Export-Import Bank which constitutes a very significant part of the total U.S. resources under the Alliance for Progress.

Further, it limited its present review of the \$1.5 billion surplus food and fiber programs to noting the usefulness of the Food for Peace Program, to the recommendation that loans to private enterprise of local currency from such food and fiber sales be expanded and to the admonition that food for work programs should not be so extensive as to enable "foreign governments to use our surplus food as full 'wages' for work performed."

Even within these limitations, the report covers a remarkably wide range of subjects, as is clear from even the most compact and summary description of its six parts.

(1) *U.S. Foreign Aid Since World War II* (pp. 1-2). This part covers a brief review of questions and criticisms and a survey of recent progress and states the Committee's approval of the Act for International Development of 1961 and of the "steps forward" that have been taken under it.

(2) *Present Status and Future Guidelines* (pp. 3-7). This part makes two principal points: (a) that foreign aid is of great value to the nation's security; and (b) that "even with due consideration for improvements, however, much remains to be accomplished" (p. 3) in the field of foreign aid.

(3) *Findings* (pp. 7-19). This part, which is the longest and contains the most specific recommendations, sets down the majority's conclusions on fourteen different important aspects of U.S. assistance programs.

(4) *Future U.S. Assistance Programs* (pp. 19-21). This part, while recognizing the continued need for military assistance programs "for some years to come," advises that "reductions are in order in present military and economic assistance programs" and, apparently, that "these reductions be phased over the next three years."

(5) *Conclusion* (pp. 21-22). The conclusion emphasizes the value of properly conceived and executed foreign aid, states that there would be a need for development assistance and a U.S. interest in providing it even if all political differences with the communists were immediately resolved, and pays well-merited tribute to David E. Bell, the expert and experienced Administrator of AID.

(6) *Dissenting Statement* (pp. 22-25). The dissenting statement of Mr. George Meany opposes reductions in foreign aid and urges more extensive and broadly based programs "designed to promote economic and social well-being for entire populations of developing countries" through stressing and supporting the development of characteristic free world social institutions, including free labor organizations.

Clearly, the most important conclusion of the Committee is found in its repeated statement that properly conceived and executed foreign aid programs are in the national interest and contribute to the national security (pp. 4, 5, 19, and 22). The second most important conclusion of the majority is their recommendation "to decrease or abolish aid in a number of countries." In this regard the majority said (p. 20):

We hesitate to translate our recommendations into precise dollar terms. This would require in addition to our current examination, detailed review of programs now under consideration and judgments on the firmness of understandings arising from past negotiations with foreign governments. We have stated program criteria which affect the number of countries receiving aid and the nature of that assistance. AID informs us that if our criteria were now in effect, present programs would be reduced by approximately \$500 million, and there would be additional reductions in the following years as some of these programs were phased further down or out. We recognize the necessity of fulfilling present commitments which in some cases will delay the point when these criteria can be in full application and the existence of other commitments which could require increased funds in the future.

The Committee does not attempt to appraise in any detail the results of United States foreign aid programs during the past sixteen years and could not of course be expected to

do so within the compass of a general report. Its conclusion that foreign aid is valuable to our national security presumably stems from a judgment that the marked change between the world situation described above that existed immediately after the end of World War II and the much improved situation that prevails today is attributable at least in significant part to United States foreign aid programs.

The terms of reference of the Committee's first report did not require its advice upon the organization of foreign aid agencies or the administrative as distinguished from the policy aspects of foreign aid programs. Presumably the Committee may in a subsequent report deal with the vexing and important problems of administration that have long beset foreign aid. In that event, it will be fortunate that each of its members has had extensive experience and hence is familiar with the truism perpetuated in Portia's platitude that:

If to do were as easy as to know what were good to do, chapels had been churches, and poor men's cottages princes' palaces.

GEORGE MEANY  
*President, AFL-CIO*

American labor takes pride in having supported the mutual defense and economic assistance programs from their very beginnings. We have participated actively in many of these programs—from the Marshall Plan to the Alliance for Progress. In addition, we have supplemented our government's efforts with our own aid projects: helping to re-establish Europe's free trade unions; encouraging and assisting the development of the trade unions of colonial countries in their struggle for national independence; aiding the workers of the new nations in Asia, Africa, and in Latin America to build strong, free, and democratic labor organizations; training manpower; financing trade union schools and colleges; giving technical assistance, trade union know-how; and furnishing office equipment, jeeps, and so forth.

In these undertakings, for which the AFL-CIO spends at present twenty-three per cent of its yearly income, American labor is motivated by international labor solidarity and the

realization that free trade unions are indispensable to every democratic society. Experience has taught us that trade unions are the first target of the communists' drive to conquer and sovietize the world and that should the trade unions overseas lose their freedom, the freedom of the American labor movement would soon be menaced.

Though American labor has been a staunch supporter of U.S. foreign aid programs, it has never considered them above and beyond criticism. We have, over the years, submitted to our government suggestions for eliminating their weaknesses and increasing their efficiency. In this spirit, we welcomed the creation, in December 1962, of The Committee to Strengthen the Security of the Free World. American labor, and I personally, felt honored when President Kennedy appointed me a member of this Committee, whose chairman was retired General Lucius D. Clay. The first task set for this Committee by President Kennedy was to examine the U.S. military assistance programs (MAP) and economic aid programs as administered by the Agency for International Development (AID) in order "to determine whether their scope and distribution was contributing to the optimum security of the United States and the economic and political stability in the free world."

Let me reiterate what I stated in my opinion dissenting from the Clay Committee report: The economic aid and military assistance programs constitute "insurance against possible vast military expenditures and sacrifices of American lives." The extensive financial support by the American people of foreign aid activities conducted by private voluntary agencies is proof of their willingness to pay the "cost of this insurance."

The AFL-CIO has always insisted that the trade unions have a major role to play in the execution of foreign aid programs. In many developing countries in Africa, one of the greatest threats to political stability—and without political stability no sound economy can be built—is the establishment of authoritarian one-man governments. The best protection against this trend is the rule of law (guaranteed political freedoms and independence of the judiciary) as well as democratic institutions. Among the latter, free trade

unions are of foremost importance. In a number of underdeveloped countries the labor movement is the only existing mass organization. Its members are relatively well-trained politically, since the trade unions played a dominant role in the struggle for independence.

Trade unions are the best safeguards against exploitation of the workers by greedy private employers and an all-powerful employer state. They also prevent potential dictators from using the workers for their own demagogic purposes. They are a bulwark against an imitation of the Soviet pattern, that is, abolition of free collective bargaining, establishment of harsh work rules, and introduction of forced labor. For all these reasons, free trade unions have a difficult time in many underdeveloped countries. They face severe restrictions of their activities and rights, especially the right to strike.

Trade unions are interested in an effective and just implementation of foreign aid because only then can they be sure that the people, rather than the ruling clique, tribal chiefs, or caste, benefit from these funds. We should, therefore, insist that trade unions in the underdeveloped countries have a voice in the planning and execution of aid programs.

Moreover, among the reforms which we demand the governments of the recipient countries should provide is the establishment of free collective bargaining, social legislation, and working conditions in compliance with ILO standards.

Let me point out that while at the beginning of the Marshall Plan, foreign aid accounted for two per cent of our national product, it is today only 0.7 per cent; in 1949 it amounted to 11.5 per cent of the federal budget, today only to four per cent. According to David Bell, administrator of AID, of the forty-one countries receiving U.S. aid since World War II, more than half are now able to stand on their own feet economically. Sixty per cent of the economic aid requests are for loans and forty per cent for grants. Nor are the aid funds entirely a financial burden for the American people, since about eighty per cent of the funds are spent in the United States and help create from 600,000 to 750,000 jobs in this country in manufacturing and shipping goods to recipient nations. U.S. trade with countries which

have received U.S. assistance tends to increase, as experience with western Europe and Japan proves.

For some time, the administration and Congress, backed by public opinion, have been demanding greater participation by other nations of the free world, especially western Europe, in foreign aid. Although European countries have recently expanded their assistance operations considerably, half of all foreign aid of the free world—which amounted to \$9 billion in 1962—is still being given by the United States. Of course, in comparing figures, one must not forget that since their individual income is lower, European nations cannot be expected to match American aid. On the other hand, U. S. defense expenditures, which benefit the entire free world, are much higher. For instance, there are as many men under arms in the U.S. as there are in all NATO countries combined. The U.S. spends \$277 a year on defense for each American. This compares with \$52 *per capita* in the other NATO nations—a ratio of five to eleven.

The main criticism that can be levelled against European aid to date is the fact that it is given mainly on commercial ("hard") terms, that is, in the form of short-term, high-interest private loans. As the report of the Clay Committee correctly pointed out, this saddles the underdeveloped countries with too heavy a debt burden. The administration should make a major effort to convince the European countries, especially the German Federal Republic, of the necessity to give more grants or long-term, low-interest, so-called "soft" loans.

As far as European complaints regarding aid programs are concerned, they are directed against the strings attached to American assistance, namely, the provision that they have to be spent in the United States. This requirement is necessitated by America's difficult balance of payments situation. To the extent that Europe will assume a larger share of the West's foreign aid and defense load, it may be possible for our country to ease up on this condition.

The recent meeting of the twelve-nation Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) was not able to solve the problems concerning Western aid. In view of

their importance and urgency, a Western summit conference on foreign assistance may be in order. Such a conference should set up a multi-lateral aid system, adjust the loan terms of the different countries, and establish a regular exchange of information on all kinds of assistance by donor nations. Such a common approach would go far not only toward increasing the volume of aid, but also to equalize its terms, distribute its burdens more fairly, assure better distribution and control of its use, prevent pressure tactics by recipients, lend increased weight to demands for self-help and reform measures in the underdeveloped countries, and avoid duplication and waste.

The question of aid cannot always be determined on "economic grounds." It may be necessary to aid a country which, in the cold eyes of a business man, would be a poor investment risk. In such a case, we should suggest to the recipient country that it request technical assistance in carrying out administrative, financial, and other needed reforms. This is what Greece did when she first began receiving American aid. This assistance has contributed decisively to the economic and political recovery of Greece and is one of the reasons why that country is now rapidly approaching the time when it can stand on its own feet and will no longer require U.S. help.

In general, we must, however, warn against comparing the Marshall Plan with current aid programs. In Europe, the task was to help democratic countries which had established political institutions, a sound economic system, trained manpower, and an old culture to overcome the ravages of war, and, in the case of Italy and Germany, the internal effects of totalitarian rule. But in the economically underdeveloped countries, the foundations of a democratic society, a healthy economy, and a modern education system have first to be built. This will require much time and patience. Yet, there is no reason to doubt that the final results will be as great and gratifying as they have been in postwar Europe.

From the beginning of the aid program it has been the policy of the United States not to impose its political or economic system on the recipient countries, but to leave it to the people of these countries to decide their own form of government and economic and social order. Thus, Great Britain

was one of the major beneficiaries of the Marshall Plan, although its Labor government carried out a vast nationalization program. Simultaneously, France, another big recipient of U.S. funds, also expanded public ownership and embarked upon establishing a series of economic plans. In this light, I took strong exception to a cardinal thesis in the Clay Committee's report, namely, that our aid program should insist on free enterprise in the recipient countries and that their needs could be served only by private capital investment.

American labor has always wholeheartedly supported our free enterprise system. Under this system our country has obtained the highest living standard in the world. Moreover, the labor movement has found that it can best protect the interests of the workers in a free economy as it exists in the United States.

However, our economic system is possible only within the larger framework of a democratic society where we have developed strong countervailing forces to private capitalism. These forces include free trade unions and free collective bargaining; farmer and consumer organizations; a Congress that acts as a watchdog in cases of abuse of economic power; antitrust laws; social legislation; regulatory agencies, and so forth. As a result, the *laissez-faire* economy of the nineteenth century has been changed into the "mixed economy" prevailing today in the United States, as in most other industrially advanced countries in the free world.

These countervailing forces, however, do not exist in the majority of underdeveloped countries. Not only political democracy, but the national state as such is still in its infancy. Labor is numerically weak and farmers or consumer organizations are almost non-existent. Parliament is controlled by a strong executive. The one-party system is the rule in many instances. Social legislation, if there is any, is paid only lip service.

The issue is not private versus public enterprise. In most economically underdeveloped countries both are needed in order to assure a speedy establishment of a sound and prosperous economy.

It is certainly necessary to expose "doctrinaire biases against responsible private capitalist enterprise." But it is no less

necessary to combat "doctrinaire biases" against responsible public enterprise and planning.

It is a fact that current basic needs of the underdeveloped countries can, to a large extent, not be met by private capital. These needs include construction of roads, schools, and hospitals; vocational training; irrigation; and so on. Since in view of the prevailing poverty, domestic savings are insufficient, the required funds to carry out such projects must be provided by sources from abroad. Obviously, public aid (grants, long-term low-interest loans) rather than foreign private capital are likely to be the main source.

In addition, the situation is today not propitious for private capital in many of these countries, as the flight of U.S. investments from Latin America shows. Of course, private capital has an important role to play in the development of the new countries. But, today, public foreign aid is needed, first of all, to help create the economic and social conditions under which private investment can be most efficient and beneficial. Any other position on this issue would strengthen the communists' anti-American propaganda in the underdeveloped countries. It might spell the doom of the Alliance for Progress which is largely based upon governmental loans and grants.

In March 1961, President Kennedy proclaimed the sixties as the "Decade of Development." The American people and Congress hailed the president's plan which was, a short time later, endorsed by the General Assembly in the United Nations. Any reduction in foreign aid funds would jeopardize the realization of this lofty ideal.

I will never cease being proud of my country for what it has done. No country in human history can match the record achieved by the United States since 1945 in giving up so much of its substance to try to preserve freedom and help people in the rest of the world.

OTTO E. PASSMAN

*Member of Congress, Fifth District of Louisiana*

When President Kennedy, late in 1962, announced the appointment of a committee headed by General Lucius Clay to study our foreign aid program and submit recommendations

for future policy and actions, my reaction was one of mild interest mixed with considerable skepticism. This attitude was the result of my disillusionment based on past experience with similar committees. The work of these committees, in most cases, had been of a superficial nature, and their function, on the whole, had obviously been intended to advocate the point of view and strengthen the hand of the Executive with Congress and the public. Therefore, I looked upon the Clay Committee as one which was cast for the same role, to "bail-out" foreign aid.

But, since the Clay report was released by the State Department in March, I have studied its comments carefully, and—although I do not think that any committee within the span of a few months can adequately, and in detail, investigate and evaluate such a vast and complex matter as our world-wide program of foreign aid—I have been both surprised and pleased at the apparent objectivity with which the Committee undertook its assignment, so far as it went. Many of the Clay Committee assessments and conclusions can, and I sincerely hope will, serve effectively in furthering the effort in Congress to curb our indiscriminate foreign aid to a substantial extent.

It has been clearly evident for a long time, however, that we have been "indeed attempting too much for too many," but it is well that the Clay Committee saw fit to give emphasis to this point. It would have been well, too, if the Committee could have gone into a more thorough study and, then, reported in greater detail on how ill-conceived, badly executed, unrealistic, wasteful, and expensive much, if not most, of our foreign aid really is. In that event, its recommendation for cutting the program's funds would doubtless have been increased considerably beyond the \$500 million figure which was announced—assuming, of course, that realistic guidelines continued to prevail in the process of decision-making.

Nevertheless, within the limitations imposed by the circumstances, the Clay Committee did note that a good deal of the public and congressional complaints about and criticisms of our aid program and problems were well justified. This is all to the good, even though it is but limited ac-

knowledgegment of conditions which I, as chairman of the Subcommittee on Foreign Operations of the House Committee on Appropriations, and the majority of my Committee colleagues, who are continuously studying the program, have been pointing out for years.

Since the Clay Committee did not go into these particular weaknesses and faults of our foreign aid program, I think that in the interest of a factual presentation, some of them should be enumerated here. They include:

- over-extending ourselves in practically all categories of aid;
- programs which are too diffuse for specific results;
- mismanagement of many projects;
- ineffective bureaucracy in AID headquarters and in the field;
- ignorance on the part of many planners in AID;
- little effective liaison between main office in Washington, D. C., and field offices in foreign lands;
- too many projects started and not brought to fruition;
- too many sloppily planned projects;
- projects which are not in the interest of the people to whom aid was offered;
- too little consideration for our own national interest;
- completely inadequate and ineffective end-use justification;
- too much kowtowing to certain political cliques in some countries;
- graft and greed of some politicians in recipient areas, getting rich at the expense of the masses by means of our aid;
- speculation in our aid goods;
- projects initiated far above the ability to repay;
- aid solely in response to so-called communist threats;
- aid in response to pleas from flamboyant politicians;
- aid for projects in which our prestige has suffered;
- aid solely to commit funds unexpended at fiscal year end;
- aid disbursed by subterfuges, moved from program to program and from the President's emergency fund; and
- non-cooperation on the part of recipients.

The records of our Subcommittee are full of documenta-

tion for every one of these criticisms, and for many others as well. So, my principal regret is that the Clay Committee did not delve far enough into our foreign aid follies—because it could not go into the program more extensively or, perhaps, for other reasons. However, while covering only a relatively small portion of what is being done and what actually ought to be done, the report is certainly correct in questioning the visible results of our aid.

I concur with General Clay and his Committee that “reductions are in order” in present military and economic assistance programs; that Africa is an area where western European countries “should logically bear most of the . . . aid burden”; that it should be made unmistakably clear that aid recipients must be “serious about self-help”; that aid planning “should be marked by realism”; that aid should not be given to foreign governments for “projects establishing government-owned enterprises which compete with private endeavors”; that careful examination should be made of the argument that aid should be given for “political” reasons; that there are “serious doubts” as to the wisdom of guaranties on our part against commercial risks (guaranties which should be given, instead, by the recipient countries); that AID employees “whose performance is marginal or whose technical skills are not required” should be separated from the program; that aid should not be given to Indonesia; and that, over all, “a higher quality and reduced quantity of our diffuse aid effort . . . could accomplish more.”

But, I part company with the Clay Committee in some of its other conclusions, and most especially do I reject General Clay’s personal contention that \$4 billion is the “rock-bottom” sum that should be made available for our foreign aid in fiscal 1964. The evidence simply does not support such a claim as that, any more than it has supported similar “rock-bottom” claims advanced by the Executive over the past eight years. During that period, in which it has been my privilege and responsibility to serve as chairman of the Foreign Operations Appropriations Subcommittee, the Congress appropriated an aggregate of \$6,582,937,000 less than the budget estimates for foreign aid—the reductions ranging in amount from \$558,650,000 for fiscal 1961 to \$1,204,182,000 for fiscal 1960. Even so, the funds made available were,

in every year, far in excess of the needs. This was so despite the many grandiose policies and actions which have characterized the program and despite administration assertions that any substantial cuts at all would seriously damage the program. On this score, the facts of the matter are irrefutable.

We are now into, and accelerating, the third major phase of our foreign aid since the end of World War II, assistance to a large number of so-called underdeveloped countries. Yet, in large measure, we are applying in these cases the same economic and military criteria which we used in western Europe. This basis of action, in my opinion, is completely wrong. A new set of formulae must be devised for this kind of program, if we are to proceed with it, and the elements of common sense and practicality must be given priority, both in concept and execution. This rules out, so far as I am concerned, such projects as the building of artificial harbors, roads that lead nowhere, giant hydroelectric schemes that cannot possibly be paid for in the foreseeable future, and those other large projects which are dear to the hearts of some of the recipients and the super-planners in AID.

With regard to many of the other countries, I heartily concur with the Clay report that they do not now really need our assistance and, therefore, we should cut off our aid to them. In this category, the Clay Committee specifically mentioned only four nations, but I think I would have no difficulty in adding to that list a good many others. Those countries should shoulder their own burdens, and there is no way which, in clear conscience, our continued expenditures for their benefit can be justified. And certainly, if there is going to be foreign aid, the other industrialized nations—France, England, and others—should, as the Clay report suggests, help their own former colonial areas. After all, they, not the United States, got most of the benefits from those areas.

The Clay Committee recommendation that the United States should by every means possible get out of governmental aid and make extensive efforts to interest private investors to go into foreign areas is in the best American tradition. Private business know-how and initiative can accomplish much more than aid on a government-to-govern-

ment basis; and if there are foreign socialistic governments who do not wish to allow our private capital to come in, it is my judgment that we should let them alone entirely.

While the Clay report did not go into the matter of Russia's so-called "aid" to other nations, I think it is well for us to note, in the context of this discussion, that the Soviet dealings have involved "banker" type loans and profitable barter deals. The Soviets, invariably expecting repayment in usable goods and hard cash, assess the capabilities of the various areas according to their ability to pay.

Are our statesmen less able to understand these people and countries than are the communist leaders?

PAUL G. HOFFMAN

*Managing Director,  
United Nations Special Fund*

Over the past few years, a considerable number of serious private and official studies—prepared in many parts of the world—have reviewed in varying detail both the principles and the operations of "foreign aid" programs. To my knowledge, not one of these reports has failed to stress the great value of properly conceived and administered development assistance. A good many of the studies also express affirmations similar to the Clay report's: "A foreign aid program is one instrument among many which we and other developed countries adequately can afford and vigorously must use. . . ."

The question, therefore, is not whether or not development assistance should be provided, but rather for what purposes, to whom, through what channels, and in what amounts.

These issues, too, have been treated by certain of the reports, some of them with excellent clarity and depth. With such findings in mind, and against a background of many years' experience in governmental, foundation, and multi-lateral assistance work, I should like to examine those four issues. I shall do so, not from the point of view of any particular development assistance program, but in the hope of identifying certain principles which might be relevant to all such programs.

## I

One of the most pressing and immediate tasks confronting us in the wake of the current debate over development assistance is to clarify in our minds exactly what assistance can do and, equally important, what it cannot do. Failure to achieve a clear understanding of the true purposes and of the inherent limitations of "aid" has produced unfortunate results. Not only has it led to the waste of hundreds of millions of dollars, but it has also bred disappointment with the whole concept of "aid" itself.

From the start, development assistance programs were saddled with a number of pernicious misconceptions. One of the most tenacious of these was the idea that "aid" could be manipulated to win true friends and influence people for any significant period of time. The origins of this fallacy are easily understood. They lie in the peculiar historical circumstances in which the desperate social and economic needs of the emerging countries forced themselves upon the attention of the world at a time when its two "super-powers" were locked in a titanic struggle. The temptation to regard economic "aid" as an instrument in this conflict and to justify its necessity in terms of cold war imperatives proved initially overwhelming.

Now, after more than fifteen years of experience with development assistance programs, we have become more sophisticated and less "panicky" in our approach. The unpredictable distortions implicit in any attempt to distribute economic assistance according to political or strategic objectives have been amply demonstrated. In the same way, we have also learned the self-defeating character—over the long run—of any assistance dispensed primarily to gain immediate commercial advantages for the donor country.

Close observation of, and participation in, assistance programs for over a decade and a half have completely convinced me that they should have one long-range purpose—development. That is to say, their exclusive aim should be to help the low-income countries to stand, economically speaking, on their own feet. If this is accomplished, and it can be accomplished only by concentrating on that single goal, the collateral benefits will be significant. These coun-

tries, with their national integrity uncompromised through development assistance, stand a better chance to become stable, prosperous, and responsible participants in the international community and in an expanding world economy.

In 1963, the vision of prosperity in the developing countries is far from utopian. Every day at the United Nations brings further evidence that these countries *have* the latent resources—human and physical—to provide their people with decent standards of living. The work of the UN Special Fund, for example, has shown that the necessary ingredients are close at hand. Surveys carried out by the Fund and its cooperating agencies in the low-income countries have revealed many rich but unutilized natural resources and industrial potentialities. They have also helped mobilize capital for their development. Applied research and extension services supported by the Special Fund have raised output and productivity and improved the uses of local materials. Finally, the advanced education and technical training programs have proven once again the primacy of the most important and neglected factor in a country's development, its people.

Happily, one indispensable catalyst needed to stimulate the development of these resources and to trigger a dramatic chain of social and economic advance is already present. It is the deep and dynamic determination of people in the low-income countries to escape from the degrading bondage of poverty and its ugly companions.

The other indispensable spark must be supplied by the industrialized countries. It must reflect *their* deep and dynamic determination to provide for the emerging countries an adequate supply of capital, experts, and equipment, and to bring on stage the incalculable forces of modern science and technology which are waiting in the wings.

There is, of course, a whole arsenal of reasons why leaders and people in the industrialized countries must bend every effort to help the low-income countries which are conscientiously striving to develop their human and physical resources.

Most of these reasons can be reduced, ultimately, to the compelling fact that the nations on our shrinking planet have grown daily more interdependent. The force of this argument can be demonstrated with equal facility not only

on the moral plane but in the practical spheres of politics and economics. Indeed, the recognition is at last growing that the world cannot hope to achieve even a semblance of stability as long as two-thirds of its inhabitants are in full, active revolt against their grossly inadequate standards of living. Thus, for example, the highly charged repercussions of such events as famine in the Congo are felt in chancelleries as well as in private homes around the world.

This leads me to insist that, because of the mutual advantages ensuing to all nations from successful development assistance programs, such programs should not be spoken of as "foreign aid." They are not "foreign," because every nation's own vital interests are involved. They are not "aid," but rather investments in peace, freedom, and the future prosperity of each and every country.

## II

The needs for economic assistance are so huge and widespread that careful selectivity in its distribution is required; how, then, should one determine that distribution?

Development assistance should be provided only to those who most urgently require it, and only when and where it can be *effectively* used for development. These criteria, which sound so simple, are both more essential and more complicated than they appear at first sight.

Should assistance be concentrated on those countries already approaching a breakthrough to self-sustaining economic growth? A little bit of strategically placed assistance there goes a long way. Put another way: should development assistance be denied the poorer, perhaps smaller countries because they are so far behind that they cannot absorb the same kinds of help which proved effective elsewhere? Should assistance aim at calming social unrest, or at preventing it, or both?

Finally, what should happen when a country is unwilling to remove obstacles to its progress which are of its own making? . . . fiscal irresponsibility resulting in runaway inflation; feudal land tenure systems; inequitable taxation; flights of domestic capital abroad; exaggerated protections for inefficient business and labor; a cumbersome and excessively costly civil service; grave political, social, and economic inequality.

This is not the place for a technical analysis of these matters. It is, however, a place to stress the grave dangers of either complacency or superficiality. We must face the complex problems which are a part of the development process, and we must all show some patience, but not too much. Other people cannot be pushed around, but we can try to reason with governments and people and to persuade them to act on the basis of their real self-interest. If this is unavailing, attention and assistance should, perhaps, be directed elsewhere for the time being. Here, as in politics, we are concerned with what is possible and with the art of making that which is needed possible.

Certainly, there will never be a neat formula for determining precisely to whom development assistance should be supplied. Some flexibility will be required in a changing world; that is why the administrators of assistance must be adaptable and have both the latitude and the means to exercise their best judgment.

Different programs inevitably require somewhat different principles; lending is another business than that of making development grants; providing budget support is quite another affair than lending. In this context, certain of the criteria used in determining the recipients of the United Nations Special Fund assistance might not be without interest.

The United Nations Special Fund helps only countries prepared to help themselves. It shares rather than bears the costs. It insists that any project which it assists shall fall within the framework of a consistent economic policy and result in sustained follow-up action. The Fund's assistance to training and research institutes is limited to support for no longer than five or six years; it is phased out in each succeeding year as counterpart personnel become increasingly capable of taking over complete responsibility themselves. Thus it is hoped to leave behind a permanent, viable institution capable of stimulating significant increases in strategic areas of production and productivity.

In general, development assistance should be given to the needy in forms they can use. It should be provided on terms which do not negate the intended purpose of promoting their development by placing excessive burdens on them.

Finally it should be supplied in quantities no larger than they can absorb. The criteria should be economic and not those of short-range political, military, or strategic advantage.

### III

In addition to the question of the legitimate purposes of development assistance, and of the factors which should determine its destination, there is also the important matter of the best channel for providing effective assistance to developing countries. The respective advantages of the different channels for administering genuine development assistance will vary from one project to another and from one recipient country to another. In all cases the best channel is that which delivers the most development per dollar, pound, franc, ruble, or mark. There is no activity of which I have knowledge in which the application of this sound, business-like practice is more urgently required than in economic assistance programs.

In certain situations the most effective transfers of knowledge and capital will be private—that is, through business and trade unions or through foundations, universities, and religious groups. But in other circumstances resort must be made to governmental and intergovernmental agencies. In these instances, governments should weigh carefully certain major advantages—political, technical, and economic—which repose in multilateral organizations, particularly in the United Nations and its related agencies.

Mr. Eugene Black, who so ably headed the World Bank for many years, put the case this way. First and foremost, he asserted, "One obvious and enormous virtue of the international approach is that it can be *objective*." From this initial premise, he drew the following conclusions:

Because we have no axe to grind, we can take on the jobs which are necessary, but unexciting. Because we have no political or commercial motives that might distort our efforts, the underdeveloped countries can rely on us to help them find the very best experts, the cheapest supplies, the projects which will best meet the needs of their countries. . . . This objectivity also means that the help offered by an international agency is continuously available. Its support is

independent of the Cold War or any other kind of international tension. . . . Multilateral aid can also have teeth.

By this he meant that United Nations agencies, among them the World Bank, can be tough without being accused of having other motives than that of speeding development with the most economical use of international funds.

In addition to objectivity, Mr. Black adduced several other telling arguments in favor of multilateral economic assistance. "Almost by definition," he stated, "it must be able to draw on larger resources than are available to any bilateral grouping." His final argument is perhaps the most powerful of all:

International aid can be more acceptable to the receiving country than help given on a bilateral basis. . . . Aid by one country to another only too often has a patron-and-suppliant flavor which is wounding to a touchy nation's self-respect. . . . Aid given on an international basis can have, in contrast, an air of partnership.

The work of the UN Special Fund illustrates well this principle of partnership. One hundred and four countries contribute cash to the central resources of the Special Fund. Broad guide lines for its policies are determined by the UN General Assembly. The Fund's Governing Council is composed of representatives of the governments of nine less-developed countries and of nine industrialized countries. It has approved to date 327 high priority projects for assistance to 120 developing countries and territories. Most of these projects are well under way, promoting investment—local and external, public and private—and creating and strengthening essential institutions, improving development planning, and raising the skills and incomes of people in the developing countries.

To implement this \$672 million program, the "recipient" governments are providing goods, services, and cash worth \$389 million. The Special Fund is contributing the remaining \$283 million for international experts, fellowships, equipment, and services under contract. (The United States, the largest contributor, has committed seventeen per cent of the cost, the other industrialized countries twenty-five per cent, and the developing countries no less than fifty-eight per cent.)

The nearly one thousand international experts serving on these projects were recruited from some sixty countries. Over half of those countries were themselves receiving Special Fund assistance. Such experience justifies, I believe, Mr. Black's support for multilateral assistance on the grounds that "it *can be* more efficient to pool the resources and the resourcefulness of many nations rather than each nation acting separately."

This leads me to stress two additional facts. Channeling development assistance through the United Nations can also help to bring order out of existing confusion and waste. In one African country I recently visited there were more than fifty inter-governmental, governmental, and private agencies (excluding business firms) offering all kinds of "aid." These ranged from fellowships, often in very low priority areas, to public credit for goods which the low-income country neither really needed nor could afford.

Secondly, I would stress again the utter futility of transforming the "cold war" into an "economic-aid war" between any two countries, or of dividing the world into "givers' clubs" and "receivers' clubs." The results are certain to be "aid" for the wrong projects, "aid" for projects in the wrong countries, and "aid" for the wrong people.

In this critical business of speeding economic development, there is no room for any war except that against want, injustice, and inertia in development. Instead we must turn, together, to full cooperation—among North, South, East, and West—to achieve the technical, intellectual, and spiritual progress and the expanding world economy upon which the well-being and possibly the survival of all of us ultimately depend.

#### IV

It is true that the industrialized countries have expended considerable sums on development assistance. But there are several factors which make the actual size of their country's effort much smaller than many persons believe.

In the first place, statistics on assistance are often misleading. In fact, perhaps no statistics are more unreliable. One reason for this arises from a failure to differentiate between development assistance on the one hand, and export

promotion, short-term commercial credits, and relief, on the other. Each of these may have its own excellent justification. However, they do not usually serve the primordial function of development assistance, which is to expand a country's capacity to produce *essential* goods and services.

Also giving an exaggerated impression of the development assistance effort is the frequent failure to make a clear distinction between such assistance and the military aid and defense support provided by several industrialized countries.

In estimating the quantity of aid required, we also have to consider two factors which affect the net results of assistance. The first is the current population explosion which compels countries to run just to stand still. World population in the period 1950–1960 soared by half a billion, an increase in one decade equal to the earth's total population in the mid-seventeenth century. This fantastic rate of growth is accelerating. Still more significant, the growth is largely concentrated in developing areas of the globe where standards of living, including health, education, and housing, are already completely inadequate and where opportunities for gainful employment are already dangerously limited. Living standards can only improve to the extent that national income increases faster than population growth and that its benefits are shared by all the population.

Another serious factor slowing the pace of economic growth in many low-income countries is falling prices for their principal exports. Since the cost of the urgently needed goods and services which they must import continues to rise, their development plans are necessarily affected.

Between the mid-1950's and 1962, the terms of trade of the low-income countries deteriorated by over ten per cent. As their total exports amount to some \$25 billion a year, this meant an annual loss of roughly \$2.5 billion. Using a reasonable definition of development assistance, that loss wiped out approximately one half the amount of such assistance they were receiving.

Since trade and development assistance are alternatives, the need for liberal trade policies is all the more vital if our temporary development assistance is to be replaced by trade.

Until that welcome substitution occurs, development assistance is essential. There are four types of expenditure

which should properly be classified as development assistance. One is technical and pre-investment assistance such as that extended by the United Nations Special Fund. This is generally in the form of grants. Another category is the use of food surpluses *for development*, also, in effect, provided as grants. Then there are "sound" loans and investments, such as those provided by private business or through the World Bank. Finally, there are long-term development credits, like those of the International Development Association.

The best estimate of the amount of pre-investment supplied by the industrialized countries in 1962 is \$600 million. Something between \$4 and \$5 billion was provided through private and bankable loans. Not over \$1 billion was supplied of the type of loans most needed: long-term, long-interest loans with lengthy periods before repayment is to begin—for infrastructure projects, such as schools, transport, hospitals, and the like.

As to what amount should be given, the answer can be stated clearly: all that can be *effectively* used. That would probably not exceed \$10 billion of assistance a year as here defined. The amount can be afforded, and particularly easily if all industrialized nations join in sharing this important investment. The additional sum required over present levels of assistance would be only a fraction of the annual *increase* in the national incomes of those nations. And who says that providing \$10 billion of essential development assistance is beyond the capabilities of nations that are currently spending \$120 billion a year for armaments and armies?

What can we expect from an annual expenditure of \$10 billion in assistance over the rest of this, the United Nations Development Decade? It is not too much to hope that twenty of the countries now receiving United Nations' assistance can attain living standards of decency and dignity within the 1960's. This should encourage more rapid progress in the other low-income countries during the rest of our century, by the end of which we could, if we really set ourselves to the task, abolish poverty, illiteracy, and chronic ill-health from the face of the earth.